

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

---

Report No. 5770

**SKAGIT VALLEY COLLEGE**

Agency No. 674

July 1, 1995 Through June 30, 1996

Issue Date: February 28, 1997

---

## TABLE OF CONTENTS

|   | Page |
|---|------|
| Overview .....  | 1    |
| <b>Schedule Of Findings:</b>  |      |
| 1. Skagit Valley College Should Seek Recovery Of Funds Paid<br>To Skagit Valley College Foundation For Lease Of Space<br>For The Head Start Program ..... | 2    |
| 2. Skagit Valley College Should Process Refunds To Title IV<br>Programs In A Timely Manner .....  | 4    |

**SKAGIT VALLEY COLLEGE**  
**Agency No. 674**  
**July 1, 1995 Through June 30, 1996**

---

**Overview**

---

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at Skagit Valley College included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for Skagit Valley College.

Brian Sonntag  
State Auditor

November 1, 1996

**SKAGIT VALLEY COLLEGE**  
**Agency No. 674**  
**July 1, 1995 Through June 30, 1996**

---

**Schedule Of Findings**

---

1. Skagit Valley College Should Seek Recovery Of Funds Paid To Skagit Valley College Foundation For Lease Of Space For The Head Start Program

In May 1981 the State Board for Community and Technical Colleges (SBCTC) entered into a real estate contract with Skagit Valley College Foundation (the foundation) to acquire property on behalf of Skagit Valley College (the college). Under terms of the SBCTC real estate contract, title to the property was to be conveyed to the SBCTC when the foundation had acquired clear title to the property by full payment of any amount owed thereon, but in no event later than May 31, 1991.

In addition to leasing part of this space to the college for its Head Start Program, the foundation was leasing another part of the space to a private nonprofit corporation which operated a migrant Head Start Program. The foundation was to use any lease income from the property to settle any amount owing on the property.

In October 1989, the foundation was only several months away from obtaining clear title to this property and having to convey title to the SBCTC. To avoid having to do this prior to May 31, 1991, the foundation extended its loan on the property to October 20, 1994.

We noted the following exceptions regarding the acquisition of this property:

- a. The college, acting on behalf of the SBCTC, did not pursue available remedies or otherwise take steps to ensure contract compliance by the foundation which violated conditions of its real estate contract with the SBCTC when it did not transfer clear title to the property by May 31, 1991. The college did not arrange for title transfer of the property until December 1996.
- b. The college continued to make monthly lease payments to the foundation as long as title to the property rested with the foundation. This resulted in \$28,216.84 actually being inappropriately transferred from the college to the foundation. In addition, monthly lease payments from the private nonprofit corporation continued to go to the foundation until November 1995. This resulted in an estimated \$27,000 being inappropriately deposited to foundation accounts instead of college accounts.

The college and the foundation continued their arrangement beyond May 31, 1991, because it was felt to be mutually beneficial.

Article VIII, Section 5 of the state constitution states:

The credit of the state shall not, in any manner be given or loaned to, or in aid of, any individual, association, company or corporation.

Office of Management and Budget (OMB) Circular A-21, Section J.38(d) states in part:

Where significant rental costs are incurred under leases which create a material equity in the leased property, they are allowable only up to the amount that would be allowed if the institution purchased the property on the date the lease agreement was executed. For this purpose, a material equity in the property exists when the lease:

(1) Is noncancelable or is cancelable only upon the occurrence of some remote contingency, and

(2) Has one or more of the following characteristics:

(a) Title to the property passes to the institution at some time during or after the lease period . . . .

OMB Circular A-21, Section C.2 states in part:

The tests of allowability of costs under these principles are: (a) They must be reasonable . . . .

While the above costs charged to Skagit Valley College Head Start Program are considered to be unallowable, they were offset by allowable indirect costs that were not charged to the program because of a cap on the percentage of administrative costs chargeable to the program. As a result, we have not questioned the allowability of costs charged to this federal program.

We recommend the college take steps to ensure future contract compliance.

#### Auditee's Response

*The college agrees that the extension of the loan beyond 1991 was not in accordance with the terms of the original 1981 agreement. However, the college feels that it has received benefit from those payments from the Foundation. All unrestricted funds paid to the Foundation are returned to the college in either services from the Foundation staff or direct payments for grants to improve college programs. Each year the Foundation allocates \$30,000 from unrestricted funds for mini grants to college departments for special projects. In addition, the Foundation has provided funds for equipment and facility improvements. The Foundation also provides over \$100,000 in scholarship support for our students each year. The Foundation's sole purpose is to benefit Skagit Valley College and its students. The college has received direct benefit far in excess of the payments identified in the audit.*

#### Auditor's Concluding Remarks

We acknowledge the foundation's sole purpose is to benefit Skagit Valley College and its students. As a result, the college received benefits in excess of that inappropriately paid to the foundation. However, because the foundation is a private nonprofit agency, it can spend its funds in a manner that is prohibited with public funds. While it appears the funds inappropriately paid to the foundation were not used to fund the cost of goods and services the college could not directly acquire, it is inappropriate that the college transfer its funds to a private entity as noted here. We will review the college contract with the foundation for compliance during the next audit.

## 2. Skagit Valley College Should Process Refunds To Title IV Programs In A Timely Manner

The financial aid office of Skagit Valley College did not process refunds to federal programs in a timely manner. During our audit we tested the records of 16 financial aid recipients who officially withdrew from the college. Refunds owed for three of the students were not paid within the required 30-day period. These refunds to the federal programs were 27 to 38 days late.

The *Code of Federal Regulations* (CFR) at 34 CFR 668.22(h)(2)(iv) states in part:

The amount of the Title IV, HEA program portion of the refund allocated to the Title IV, HEA programs must be returned to the appropriate program account(s) by the institution within 30 days of the date that the student officially withdraws or is expelled or the institution determines that the student has unofficially withdrawn.

College personnel indicated student withdrawals may not be identified in a timely manner due to inadequate knowledge of federal requirements by some staff.

As a result, refunds and/or repayments are not completed in a timely manner as required by federal regulations.

We recommend Skagit Valley College personnel develop and implement procedures to ensure refunds to Title IV programs are processed in a timely manner.

*Auditee's Response*

*College personnel have developed a method to identify student withdrawals in a timely manner in order to comply with the federal refund requirements.*

*Auditor's Concluding Remarks*

We appreciate the college's commitment to quick corrective action in this matter and will review it during our next audit.